



THE UNIVERSITY *of* EDINBURGH

## Edinburgh Research Explorer

### Who develops strategy in firms? Governance & National Values

**Citation for published version:**

Harris, S 2008, Who develops strategy in firms? Governance & National Values. in R Strange & G Jackson (eds), *Corporate governance and International Business* . Palgrave Macmillan.  
<<http://www.palgrave.com/page/detail/corporate-governance-and-international-business-roger-strange/?k=9780230203396&loc=uk>>

**Link:**

[Link to publication record in Edinburgh Research Explorer](#)

**Document Version:**

Peer reviewed version

**Published In:**

Corporate governance and International Business

**Publisher Rights Statement:**

© Harris, S. (2008). Who develops strategy in firms? Governance & National Values. In R. Strange, & G. Jackson (Eds.), *Corporate governance and International Business* . Palgrave Macmillan. reproduced with permission of Palgrave Macmillan.

This extract is taken from the author's original manuscript and has not been edited. The definitive, published, version of record is available here: <http://www.palgrave.com/page/detail/corporate-governance-and-international-business-roger-strange/?k=9780230203396&loc=uk>

**General rights**

Copyright for the publications made accessible via the Edinburgh Research Explorer is retained by the author(s) and / or other copyright owners and it is a condition of accessing these publications that users recognise and abide by the legal requirements associated with these rights.

**Take down policy**

The University of Edinburgh has made every reasonable effort to ensure that Edinburgh Research Explorer content complies with UK legislation. If you believe that the public display of this file breaches copyright please contact [openaccess@ed.ac.uk](mailto:openaccess@ed.ac.uk) providing details, and we will remove access to the work immediately and investigate your claim.



# Who Develops Strategy in Firms? Governance and National Values Effects

Simon Harris  
University of Edinburgh

## Introduction

Corporate governance and strategic management research has found some empirical support for the proposition that diversity in the management team engaged in the strategy development process is of value for firms' long-term performance (e.g. Dalton et al., 1998, 1999; McNulty and Pettigrew, 1990). The management implications of differences in the formal mechanisms and structures within which firms are guided and controlled have been a recent focus of interest (see Daily et al, 2003).

Two clearly different types of governance mechanism have long been recognised in western countries (Albert 1984). In the 'Anglo' model associate with, for example, the UK and the USA (where most of this research has been undertaken), management and ownership is separated. The financial institutions that dominate the ownership of companies in these countries expect the senior managers they hire to work in their interests, to involve various others in the strategy formation process, and if sufficiently powerful, may appoint directors to the boards of control (see Dalton et al., 2003). In countries where the division between management and ownership is less common, manager-owners may be the only individuals *formally* required to have a role in strategy formation, though others may well be involved according to local governance requirements, beliefs and values (Casson, 1996; Thomsen and Petersen, 2000).

Here we propose that the composition of these groups will be a cultural phenomenon as well, because the choice as to who is involved in strategy formation takes place in a values laden national cultural context. Many researched 'national values' are directly concerned with personal relationships at work, and power relationships, and these values vary between nations (Schein 1985; Hofstede 2001; Schwartz 1994). Here we explore how those involved in forming firms' strategies may differ between nations, and the extent to which these differences might be associated with the corporate governance systems associated with those countries and with national cultural characteristics within those countries concerning relationships between people. We do this in through the comparative case analysis of six case firms, all of a type which we would expect to benefit considerably from wide participation in strategy formation, but in very different national cultural and corporate governance settings.

## Participation in Strategy Formation

‘Top-down’ (or ‘autocratic’) processes of strategy formation have long been distinguished in the strategic management literature from ‘participative’ processes. Vroom and Yetton (1973) characterised ‘autocratic’ decisions to be those made by leaders, participative ‘group’ decisions to involve subordinates in a consensus-generating process, and ‘consultative’ decisions to reflect information and perspectives collected by leaders. The top-down process whereby CEOs and top managers set directions and make major decisions to be implemented by their staff (Andrews 1980) has its advocates (e.g. Ireland et al. 1992), and is much reflected in normative management practitioner literature’s avocations for business leaders to be tough, single-minded individualists (e.g. Pearson 1988).

Corporate governance research has categorized a range of other types of people who can act as directors of firms (Anderson and Reeb 2004; Daily et al. 2003; Lynall et al 2003), and these are presented in Table 1. We will use these categories in our exploration of those that may contribute in strategy formation. Corporate governance research tends to focus on those formalised as members of a supervisory board or as directors, but our interest here is on all those involved in the strategy formation process, including those without a formal legal position but who are trusted and valued by the CEO and/or other senior managers.

‘Insiders’ include current employees: the CEO, other senior managers of the firm, other employees more widely in the firms, friends and family of the current employees, and former employees. Strategic management process research has typically seen participation in strategic thinking from inside the firm to enable holistic and complete strategic visions to be developed and, through learning processes, enacted in changed operational behaviour (e.g. Pettigrew and Whipp 1991). ‘Teamwork’ approaches tap input from different skills and points of perspective within an organisation, integrate the perspectives and approaches of different functional specialists for better decisions in complex circumstances, and achieve agreed group-based courses of action (Baden-Fuller and Stopford 1992). There is a danger

**Table 1: Potential strategy formation contributors from corporate governance research**

<b><i>INSIDERS</i></b>	<b><i>OUTSIDERS</i></b>
CEOs / Top leaders	Affiliated to blockholders
Senior Management team	Affiliated in commercial activity
Other Employees not senior managers	Interdependent
Friends and family of CEOs / top leaders	Independent
Former managers/employees	

here, however, of 'group think' (Janis 1982) and of 'paralysis by analysis' (Ansoff 1965), which lessens firms' ability for decisive and proactive strategic action. Only equivocal conclusions can yet be drawn from empirical research on the relationship between participative decision making and performance (Lam et al. 2002).

'Outsiders' can be affiliated or independent. If affiliated, they have an existing or potential business tie to the firm. Corporate governance research has been concerned with blockholding shareholders limiting the self-serving behaviour of the managers they employ (Dalton et al. 2003; Deutch 2005) by demanding management board representation to monitor and control the firm in their interest (Jensen and Meckling 1976; Lynall et al. 2003). Affiliation can also arise from a commercial arrangement, for example a joint venture or other business collaboration, or a close customer or supplier relationship. Interdependent outsiders are appointed by the managers and may feel be obligated to them and their strategies (Daily et al. 2003). Independent outsiders act as individuals, do not have agency roles with any other body, and provide their service only in the interests of the firm as a whole. They may come from the network of customers, potential customers, competitors, suppliers, distributors, industry experts and knowledgeable people in other firms but may also be other external advisors, such as business consultants, trusted counsels from whatever source: industrial associations, advisory organizations, professional bodies such as accountants or lawyers, or industry experts.

Strategy, corporate governance and 'top echelon' research has also identified outsiders, particularly unaffiliated outsiders to be a potentially valuable resource. Longitudinal studies highlight the need for diversity of view and approach in those developing firm strategies in order to allow and to generate appropriate strategic change (Grinyer and Spender 1979; Zimmerman 1989), and strategy process research highlights the value of an 'outsider perspective' (Johnson 1987), and an openness to external influences (Pettigrew and Whipp 1991) especially in transition periods (McNulty and Pettigrew, 1999). Outsiders are an organizational resource (Geletkanycz and Hambrick 1997; Carpenter and Westphal 2001; Carpenter et al. 2003), providing advice and counsel (Hillman and Daziel 2003; Zahra and Pearce 1989), as well as linkages and legitimacy both to other shareholders and to external bodies generally (Hillman et al. 2000; Lynall et al. 2003). Their personal qualities and behaviour is important (Carpenter 2002); Roberts et al. (2005) identifies an independence of mind to be more important than independence of position, and a willingness and ability to be engaged, challenging and supportive in the strategy formation process.

Dalton et al.'s (1999) meta-analysis indicated an overall positive relationship between board size and diversity and firm performance, but the direction of causality is uncertain, and top management team (TMT) heterogeneity studies have produced ambiguous results (Finkelstein and Hambrick 1996; West and Schwenck 1996).

But firm context, in the context and the nature of the decisions involved seems to be important (Vroom and Yetton 1973). Management team diversity helps most in environmental and strategic complexity (Hambrick et al. 1996; Priem 1990), particularly where international business activity is involved (Carpenter 2002). Outside advice and counsel is especially linked to performance in smaller firms (Dalton et al. 1999) and in young and entrepreneurial firms (Daily et al. 2002; Filatotchev and Bishop 2002; Lynall et al. 2003; Filatotchev and Wright, 2005). Our study here focuses on young entrepreneurial firms in fast changing and complex technical contexts, and competing in global markets, where the resource of a diverse body helping in strategy formation would appear to be most important.

## **Firm Governance Structures and Involvement in Strategy Formation**

Divergent economic and institutional histories have led to different and sometimes complex patterns of governance structures in different countries (Albert 1994), with different conventions, laws and regulations concerning the power and rights of different groups (Thomsen and Petersen, 2000; Jackson and Aguilera, 2003). As a result, firms operate under different structures of ownership and governance that not only differ considerably within territories, but that also differ in other ways internationally.

To begin to make sense of some of the consequences of these differences, we will examine two sharply contrasting governance structures that have relevance and meaning in different countries. In one, firm ownership is concentrated in the hands of financial institutions and CEOs and other managers are employed to steward the firms. In the other, ownership is concentrated in the hands of the managers themselves. We now propose who might be involved in strategy formation in institutionally-owned compared to manager-owned firms.

### *Participation in strategy formation in institutionally-owned firms*

In the 'Anglo' model of the UK and the USA, management is often separated from ownership. Even though younger and smaller firms are often owner-managed, and some large owner-managed firms remain, outside bodies and groups more often control and manage the ownership of companies. Financial institutional structures have evolved that

make for complex and distant agency relationships. Reflecting this history, UK and US company law asserts the controlling and exclusive power of owners and protects equal ownership interests (see La Porta et al. 1998; 1999). Stock market regulations concerning insider trading restricts the close involvement of owners in strategy formation.

As a result, owners' powers are mainly restricted to the employment or otherwise of the managers and governing board. Financial institutions are effectively the employers of the CEOs and senior managers, and their appointed board of directors will often include their own representatives as affiliated outsiders to protect their interests, and other non-executive interdependent and independent outsiders. The board itself will typically propose outside directors for approval by owners, and managers can always appoint outside advisors. The extent to which these individuals are actually engaged in strategy formation will largely reflect their personal qualities (Carpenter 2002; Roberts et al. 2005).

Those employing them, from the financial owners to the senior managers, however, will have beliefs and expectations concerning their participation in strategy formation, aware of the conventional wisdom that it improves firm performance. Appointments would be on the basis of experience, performance, and independence of mind and not on the basis of personal or family relationships with the employed managers (Geletkanycz et al., 2001).

#### *Participation in strategy formation in owner-managed firms*

The simplest governance structure of firm involves the owners of firms managing them themselves, as is found not only in small or large entrepreneurial firms, but also in some of the worlds largest and best established firms. In many European countries, financial institutions are less involved in the ownership of firms, and family companies that in varying degrees combine management with ownership predominate. But the regulations and conventions differ as well. In many countries (including France, the Netherlands and Germany, the focus of corporate law is less on the protection of equity rights and more on duties of firms to take employees (and in Germany local communities) interests into account in their decision making (la Porta et al., 1997). It is not only that these interests have (within larger firms at least) the right to representation on supervisory boards or committees, but that the structure and nature of corporate governance is undertaken with different underlying perspectives (Albert 1995; Clarke and Bostock 1994; Clarkham 1994).

There may be no expectations or requirements that CEOs should involve, or even consult others in the process of strategy formation, and if they do, it will be their own choice, and

reflect their own interests (Casson 1996). From a resource perspective, owner-managers might consider it to be useful to involve those who have power in terms of control over important resources, whether from inside or outside the organization, in a participative way (Medcof 2001). So even if manager-owned firms have financial support from institutions or other individuals, who may also be involved in determining the firms' strategies, there will not be a governance requirement for them to do so.

So owner-managers might decide to determine strategy alone. If they feel a need to broaden the basis of their strategic counsel, they might choose to involve their personal family or personal friends who may have a personal interest in the success or failure of the firm. Indeed, there is strong evidence that it would be sensible for them to do so. Families and trusted friends, often having had lengthy involvement with the firm and having deep knowledge of it can be particularly well qualified to provide oversight (Anderson and Reeb, 2003). They can be sources of the valuable resources that have been noted above to contribute to effective strategy formation (Filatatchev and Bishop, 2002), as well as capital and human investments (McConaughy et al., 2001). This, however, is really only possible in manager-owned or family firms, as institutionally financed firms would not regard this as professional management practice.

#### *Linking strategy formation with the two contrasting governance structures*

Concerning these two sharply contrasting governance structures, therefore, we might therefore expect to find affiliated outsiders, especially reflecting financial shareholdings to be involved in the strategy formation of institutionally-owned firms where they might not have a role in owner-managed firms. Similarly, reflecting the broader owner interests and their role in appointing boards, we would also expect more types of outsiders to be involved in the strategy formation of institutionally-owned firms than one would expect in owner-managed firms. On the other hand, whereas one would not expect the personal family and friends of CEOs and senior managers to be involved in the strategy formation of institutionally-owned firms, we could well expect this within owner-managed firms.

### **National Values and Involvement in Strategy Formation**

One view of culture widely adopted in international business research is to see it as the shared meanings assigned by individuals to the world around them. Schein (1985) noted, for example, how managers of different national backgrounds can be expected to hold different underpinning values, different assumptions regarding the environment, and different

expectations about relationships among people, and that these values, assumptions and expectations are resilient to change. Cross-cultural research, typically using structured questionnaires quantitatively to explore similarities and differences in attitudes between individuals in different countries, has catalogued a number of ‘values’ in different countries (Hofstede 2001; Trompenaars and Hampden-Turner 1997; Schwartz 1994 1999), and much of this has been subjected to repeated empirical validation and use in international business. These ‘national values’ indicate bodies of belief that people in nations tend to share, and reflect a national cultural environment to which firms are expected by people in them to adapt, even if the managers involved do not share those values (Smith et al. 2006).

Some of these value concepts are highly relevant to the issue of who is involved in the development of strategies within firms, and these may lead to differing beliefs not only about the appropriate forms of participation in the process of strategy formation, but also to the kind of people used in that participation. Few studies have studied an association between values and participation, but two recent studies of managers’ perceptions of their own efficacy in participative decision making within different cultures provide support for such an association. Gibson (1999) found an association between cultural variables and group-efficacy beliefs. A larger study of perceptions of the self-effectiveness of participation in decision making among matched samples of U.S. and Hong Kong employees in one organization found a clear association between national cultural background and beliefs about the value of participation (Lam et al. 2002).

Our attention now turns first to the specific national cultural values that measure values towards people and how relationships are developed and maintained in societies, and the measurements that have been made of them in different countries. We can identify two categories of values that are most clearly relevant to this issue: values of ‘person orientation’, and values concerning ‘power’.

#### *Person Orientation Values and Involvement in Strategy Formation*

Hofstede (2001) defined a dimension which he called ‘masculinity and femininity’, which encompasses a range of social and interpersonal interactions and values, and which reflect ways of self conceptualization (Inkiles and Levinson 1969). In ‘feminine’ societies, people are expected to be concerned with people and relationships, and emphasize the importance of these in life. People in ‘masculine’ societies, by contrast, are expected to be more goal focused, emphasizing decisiveness, assertiveness, ambition and toughness in a search for



material success. In feminine societies, then, we would expect senior managers to be expected to seek greater involvement of other people with whom relationships are held in important decision processes. To research his dimensions, Hofstede undertook social-psychological research amongst IBM employees (mainly managers and professional workers). The work has received substantial corroboration (e.g. Sondegaard 1994), and subsequent studies have 'sustained and amplified his conclusions rather than contradicted them' (Smith and Bond 1998, p.56). They represent the most widely used basis for standardized examination of national values.

Like his 'masculinity and 'femininity' distinction, Hofstede's short-term and long-term orientation dimension is a more complex concept than its labels implies, in this case being developed from later work by researchers working with managers in China (Hofstede and Bond 1988). 'Long term' thinking reflects a desire for personal growth in its broadest sense, over and beyond the span of life, in which the fostering and development of valuable relationships over a long period of time is important. A 'short term' orientation implies an outcome focus, for speedy achievement of less prosaic goals, such as wealth. Top managers in 'long term' cultures would be expected to develop their businesses through the development of skills, capabilities, and good relationships. We can see an overlap here with some aspects of 'person orientation' noted earlier, and clear potential association with the extent that others might be brought in to participate in the process of strategy formation. In long-term cultures, we might expect firms to pay special interest in the nurturing and development of their relationships with their staff as well as their senior managers, and with all kinds of potentially useful relationships outside the firm. In short-term cultures, where a greater emphasis can be expected on the achievement of quick, material results, we would expect CEOs and senior managers to engage with fewer groups.

Using a similar approach to Hofstede, but with a larger but less homogenous and standardized data set, Trompenaars and Hampden-Turner's (1997) also undertook research on orientations to time, and while their findings were similar Hofstede's, they were not based on such a broad concept, making them not relevant to this study. Their distinction between 'person' and 'task' orientations was highly relevant. In person oriented cultures, the needs and requirements of people as human beings in the workplace take precedence over the need to accomplish specified work tasks, whereas in task oriented cultures, the job to be done takes precedence. In his 'person oriented' societies, then, we would expect firms to involve other groups of people more in their decision making.

### *Power Orientation Values and Involvement in Strategy Formation*

One aspect of person-to person relationships that has long been a subject of cross-cultural values research involves the perceptions on the power of different people in society, which has often been regarded in terms of 'hierarchy'. With Hofstede's notion of power distance, a measure is made of the extent to which inequality, for example in the form of a hierarchy, or in the form of different material or social rights, is regarded as acceptable or unacceptable. In high power distance countries, it is accepted that it is reasonable that some people have much more power than others: inequality is tolerated and generally accepted, and here, it is most likely to be acceptable for strategy formation to be left to the top managers. In low power distance societies, people will find such unequal distribution to be unacceptable, and here it would be expected that the cultural context will demand the involvement of people other than just the top management in the strategy formation process.

Based on entirely different theoretical foundations, Laurent (1983; 1986) analyzed the values towards power of managers in nine European countries and the United States. Two are most relevant: his hierarchal orientation of people in organizations, and his orientation to organizations as authority systems. The first distinguishes between people who prefer traditional hierarchical structures, appreciating the elimination of the potential for internal conflict offered by fully knowledgeable and powerful managers and those that see managers as mechanisms for negotiation, as we might expect, for example, within flat structure organisations. The second refers to those that see organisations as mechanisms for allocating power and authority for control and command, and those that see it as a structure for regulating interaction among tasks, systems and functions, in order to achieve organisational effectiveness. In both the hierarchical orientation and the 'organizations as authority systems' cultures, we would expect top managers not to be expected to involve others in the strategy formation process.

Trompenaars and Hamden-Turner made a measure of egalitarian orientation which also reflected a belief that power and authority should be evenly distributed in work relationships. More recently, Schwartz (1994; 1999) has surveyed value preferences of more than 60,000 individuals in 63 countries in a substantive and theory grounded study. Though not managers, nor necessarily business employees, he identified values with direct implications for the formation of relationships. Unlike Hofstede and Trompenaars, who presented respondents with choices of alternative behaviours in different circumstances, he asked for assessment of importance of different values in 'guiding one's life'. Schwartz's measure

reflects a belief that people need to commit themselves to the interests of others within groups, notwithstanding their own interests. Hierarchical orientations express the opposite of this notion, and here people accept and expect that others will have greater power and authority than themselves, and will give clear orders and instructions.

Overall, therefore, managers embedded in egalitarian societies are likely to be obliged to consult and form good working relationships with those within the group, with whom they will need to negotiate the authority that they wish to use, and they may themselves be more likely to wish to do so. In hierarchical (and high power distance) societies, unequal distribution of power, authority, and wealth is not only considered to be legitimate, it is accepted as normal. In hierarchical societies, they will not be motivated or expected to involve other groups in strategy formation.

In hierarchical values societies, those at the top of organisations can be expected to view the strategy formation task as their own, reflecting their power and authority, as well as their responsibility, and others will share that view as well. In more egalitarian countries, where people will tend to believe that everyone should have the opportunity to change or challenge the power and authority of others, we can expect a social acceptance that senior managers will involve others in the process of forming strategies, even if this is not their formal roles. Senior managers will be able to call on the expertise, knowledge and perspectives of anyone that they might think to be of value in the process, from different levels within or outside their organizations. We therefore hypothesise:

#### *Linking strategy formation with the two contrasting national values dimensions*

Overall, therefore, we may well expect insiders to be involved in forming strategies much more in firms operating in person-orientated national cultures much more than we would expect this in countries without these values. In egalitarian national cultures, we would expect greater contribution to strategy formation from all kinds of groups, and especially from managers and employees who are not at the top levels.

## RESEARCH APPROACH

Selecting countries and industries to study is not easy. We need to study firms in countries with different person-oriented values if we are to have the chance of finding any association that will be worthy of note, but we also need to find firms where the overall institutional backdrops are broadly similar.

**Table 1: National values relevant to strategy formation participation in the three countries**

VALUES AREAS & CRITERIA:	France	The Netherlands	Britain
PEOPLE AND THINGS:			
Masculinity vs. femininity <sup>1</sup>	- / -	Feminine	Masculine
Task vs. person orientation <sup>2</sup>	Task	Person	- / -
Long vs. short-term orientation <sup>1</sup>	- / -	Long-term	Short-term
HIERARCHY AND EGALITARIANISM:			
Power distance <sup>1</sup>	High	Low	Low
Hierarchy vs. egalitarianism <sup>2</sup>	Hierarchy	Egalitarian	Egalitarian
Hierarchical relationship systems <sup>3</sup>	High	Low	Low
Hierarchy vs. egalitarianism <sup>4</sup>	Egalitarian	Egalitarian	-/-
Authors: 1: Hofstede 2001 2: Trompenaars & Hampde-Turner 1997 3: Laurent, 1983; 1986 4: Schwartz 1994; 1999 - / - Author's values data indicates a position at neither end of the worldwide range on this criterion.			

Table 1 shows an overall composite picture of the values orientations discerned for those countries in the research we are employing in this study. The discrimination between orientations shown is according to the range of nations that this research examined worldwide, so for example, the Netherlands is a nation showing some of the most person oriented (and long-term) values in the world, and Britain is a nation that shows some of the most short-term values. We see a high degree of consistency between the different research studies (despite their conceptual and methodological differences), though there are some notable discrepancies in the power-orientation measures for France. We also see, from assessments on a world-wide scale, considerable value differences between these neighboring countries.

Our aim here is to explore *how* entrepreneurs resource, use and value their relationships. The research approach needs to access the origination and full history of important business relationships, and the perceived nature of the interpersonal relationships lying within them. Our focus of analysis is not the organization, but of the internationalizing entrepreneur as an individual. We want to examine the beliefs and rationales of internationalizing entrepreneurs, and the background behind the approaches that they use to internationalize their firms. This

all points to the qualitative exploration of appropriate case entrepreneurs (Eisenhardt, 1989; Silverman, 1993; Yin, 1994), with the use of a 'fine grained' case study methodology that enables attention to important details and actions in relationship formation (Harrigan, 1983).

We wanted to explore both the entrepreneurs' relationships, and the entrepreneur's perceptions and beliefs about these relationships, in as open a way as possible. It was important not to steer the data provided in the interviews towards confirmation or refutation of previous theory. It was also important not to suggest or 'plant' ideas from theory concerning which relationships to describe, or what the value of the relationships might be. This pointed to a 'native category' approach to data gathering (Buckley and Chapman, 1997; Harris, 2000), involving extensive conversations about beliefs and perceptions around non-directive questions rather than tightly directed questions derived from theory. No prompts were used to pursue issues (such as relationships or exchanges) not raised by the interviewee, and no clues were given as to the areas of interest of the interviewer (Strauss and Corbin, 1991). Any perceived pressure to rationalize responses into a particular paradigm was also lessened by an explicit declaration that rationales would not be sought.

Nevertheless, strict consistency and some structuring of the interview process was necessary to direct discussion to relevant topics and to achieve equivalent data (Eisenhardt, 1989). This quandary was addressed in the interviews by starting the discussions with the question 'What do you think about when you consider the future of your business?' Exchanges and relationships, as well as all the other 'native category' issues the interviewees raised were discussed at length with relevant, consistent, follow-up questions. After the explanation of each issue raised by the entrepreneur himself, we asked 'Who do you discuss [this issue] with, or consult with?' This yielded a list of people who had the most important relationships with the entrepreneur. To maintain equivalence, we asked interviewees the same questions in the same order, deviating from this only to obtain clarification.

To gain an idea of the value that the entrepreneurs found in those relationships in dealing with strategic issues, and to elicit their underlying beliefs and perceptions about the role of the relationships in determining the future of the firm, the entrepreneurs were then asked, for each issue: 'What do you seek when you discuss [the issue raised] with these people?' This was a difficult question for most interviewees to address. It yielded, however, deep views and perceptions about what was important and not important, for each relationship.

It was necessary, however, to gain some finer grained data concerning the origins, background, nature, function and outcomes of each relationship, and this was pursued later in the interview with the following set of questions addressed for each relationship that the entrepreneur highlighted: ‘When and how did you meet?’, ‘How would you describe your relationship with them?’, ‘When and how do you discuss things?’, ‘How do you regard his/her views and opinions?’, ‘How have they affected the business?’. To ensure that no important relationships were missed, the entrepreneurs were asked the following question ‘Are there, or have there been other people important to you in the development of your business?’ All three entrepreneurs said that there were scores of such people, but these were, in every case, described as having been much less important to the entrepreneurs than those already discussed. Our analysis here therefore is restricted to the relationships that the entrepreneurs themselves found to be strategically important.

Each interview lasted between 90 and 150 minutes, and each interviewee was interviewed twice, the interviews separated by about one year, in order to ensure some stability within the responses gained (Ericsson and Simon, 1985; Yin, 1994). Verbal protocol analysis (Ericsson and Simon, 1985) was used to help analyze transcripts and notes from the interviews, with the categories developed from the theoretical developments outlined above. Triangulation was achieved not only between the interviews undertaken, but also to other sources of data, including a historical record of annual reports and completed questionnaires from the inception of their firms to the date of the interviews (Eisenhardt, 1989; Yin, 1994).

## **Research Method**

We began with the starting point of the one category of person who we could assume would always be involved in the strategy formation process: the chief executive officer (CEO). We followed a highly structured ‘native category’ interview protocol, to access the interviewees own perspectives of who they involved in the strategy formation process, as untainted as possible by suggestions as to who they ‘should’ involve. Interviews of 3 to 4 hours in length involved in-depth conversations around non-directive questions that enabled the CEOs to describe fully how strategies developed in their firms (Buckley and Chapman 1997; Strauss and Corbin 1991).

We needed equivalence from the data from each interview: the data needed to come from the CEOs, and not driven by our questions. Nevertheless, strict consistency and some structuring of the interview process was necessary to direct discussion to relevant topics and to achieve equivalent data (Ericsson and Simon 1985). The interviews started with the question ‘What do you think about when you consider the future of your business?’ After the explanation of each issue raised by the CEO himself, we asked ‘Who do you discuss [this issue] with, or consult with?’ This yielded a list of people who had direct involvement in the strategy formation process. To maintain equivalence, we asked interviewees the same questions in the same order, deviating from this only to obtain clarification.

To assess the value of these different people in the strategy formation process, we then asked, for each issue: ‘What do you seek when you discuss [the issue raised] with these people?’ This was a difficult question for most interviewees to address but it yielded rich and considered evaluations of the role of each party in the strategy formation process. It was necessary, however, to gain some finer grained data concerning the origins, background, nature, function and outcomes of each relationship with which to triangulate and confirm the data that would be used in analysis. Later in the interview, the following set of questions were posed for each relationship that the CEO had highlighted: ‘When and how did you meet?’, ‘How would you describe your relationship with them?’, ‘When and how do you discuss things?’, ‘How do you regard his/ her views and opinions?’, and ‘How have they affected the business?’. To ensure that no important relationships were missed, the CEOs were asked ‘Are there, or have there been other people important to you in the development of your business?’ We conducted the interviews at the interviewees’ own business premises, using the English language for interviews in the Netherlands and Britain, and the French language for those in France.

The CEOs and their firms needed to be closely matched: in similar industrial settings, with similar (preferably the same) markets, be organizationally and institutionally similar, and the CEOs should have similar backgrounds. The CEOs were all electronics engineers, and their businesses were all in a sub-segment within Standard Industrial Code 33.20/1, and developed and combined electronic hardware and software technologies to address the needs of industrial customers. The firms were all young, growing, and profitable small niche firms.



## Discussion

This study has made an attempt to address the difficult research challenge of separating the influences of governance structure from national cultural factors in explaining differences in management behaviour between countries. It has examined possibly the most important senior management task, that of forming strategies for the firms' future development. The research task is difficult for a number of reasons. First, is the dependent variable: finding out who a firm involves in its strategy formation is not easy itself, as this is unlikely to involve the whole senior management team, and can well involve people outwith that team.

Researchers need to spend time with the firms to find out who is really involved.

Second, the 'independent' variables are complex and inter-connected. Values are complex phenomena, and how they work in different countries is not straightforward, reflecting countries' unique histories and institutional structures, including their governance systems (d'Iribarne 1997). Governance structures are also complex, unique to each country, and also reflect their particular histories and contexts, including their national values. There are many other factors that affect both, and the independent variables as well. We could abandon the project in despair. Instead, in a spirit of positivism, we have had a go, and our 'quasi-experimental' approach is our best shot. It has required us to select populations to study that are similar in ever other way; they were not, but they could not be, and they were as similar as possible. We argue that we have made a reasonable attempt and have found some things of interest.

Even in this most global of industries, we do not find convergence towards a singular process of strategy formation, and we find considerable differences between firms according to their different governance structures and their national backgrounds. Firms in which management is employed by owners involve their owners or their owners' agents more than do firms in which management and ownership is combined, but not massively more. But they do use outside experts in the strategy formation process considerably and significantly more. This will reflect the managers' roles, but it also reflects their backgrounds and the reasons why they were hired for the job by the owners. Governance structure is important, but it is not a discrete, clean, independent variable.

The differences between the national cultures are, however, even greater. Interestingly, it is 'person-orientation' values that seem to be working on behaviour: these values reflect how people regard one another as humans, and not the 'power-orientation' values that reflect how they regard roles, positions and duties within the social structures of their firms. Strategy

formation is a serious business, and senior managers find it difficult. They do it with the people they feel most comfortable doing it with, and with the people that they find most helpful, supportive and useful in their worlds, and do not appear to take too much regard for power or role positions. So it is the fundamental ways that inter-personal relations work that seems to be the most important here. Dutchmen are comfortable discussing their firms futures with the lowliest of employees, and the employees expect it; Brits are not, and the employees so not. We see here cultural values at work in behaviour in the firm. The cultural values here are operating in a different way on strategy formation behaviour than were the governance arrangements. The 'person-orientation' cultural values reflect a belief in a common community of interest which demands discussion and engagement widely within the firm; the governance factors of the institutionally financed firms demand involvement of useful people, and these were external to the firm.

Our three hypotheses are:

- H1: Representatives of external owner interests will be involved in forming strategies in institutionally-owned more than in manager-owned firms
- H2: More groups will be involved in forming strategies in institutionally-owned than in manager-owned firms
- H3: Manager's personal family and friends will be involved in forming strategies in manager-owned firms more than in institutionally-owned firms
- H4: Firms in person-orientated national cultures will involve more internal groups in forming strategies
- H5: Firms in person-orientated national cultures will involve more groups in forming strategies
- H6: Firms in egalitarian national cultures will involve other managers and employees more widely in forming strategies
- H7: Firms in egalitarian national cultures will involve more groups generally in forming strategies

## **Conclusions**

When seeking to understand differences internationally, comparative management research has tended to polarise on explanations based either on institutional differences (particularly governance structures) or on cultural values. Unbundling the different factors is a significant, possibly impossible, research challenge, but this study has attempted to make some progress. Its findings highlight how both have their part to play, in different ways, in leading to substantially different managerial practices between nations even within a technologically

advanced, rapidly changing global industry. More studies and tests of the type undertaken here would provide richer understandings of managerial practice differences. Even though this study has shown that both are important, it has also shown that the influences are not always obvious, and direct and simple predictions based on either cultural values variables or governance structure arrangements are likely to be unreliable.

Better knowledge here will be of value to managers. For example, British managers working with Dutchmen need to understand that they tend to be 'programmed' to make strategic decisions only with extensive discussions at all levels within firms, and this is the case even in manager-owned firms. It is a widely shared cultural expectation. But governance matters as well. Where management and ownership are separated, for example, managers will behave differently in comparison to where it is not. Managers may well have affinities with managers working in similar structures abroad than they do with managers of a different ilk at home. Until we know more, cross-cultural research needs to embrace both governance and culture as important factors behind behavior, and not over-emphasize one at the expense of the other.

## REFERENCES

- Albert, M. (1995) 'The Rhine model of capitalism: an investigation', in W. Nicholl, D. Norburn and R. Schoenberg (eds) *Perspectives on European Business*, London: Whurr Publishers.
- Anderson, R. and Reeb, D. (2003) 'Founding-family ownership and firm performance: evidence from the S&P 500', *Journal of Finance*, Vol. 53, No. 11, Pp. 1301-1328.
- Anderson, R. and Reeb, D. (2004) 'Board composition: balancing family influence in S&P 500 firms', *Administrative Science Quarterly*, Vol. 49, No. 1, Pp. 209-237.
- Andrews, K. R. (1980) *The Concept of Corporate Strategy* Homewood IL: Irwin.
- Ansoff, H. I (1965) *Corporate Strategy* New York NY: McGraw-Hill.
- Argyris, C. and Schon, D. (1978) *Organizational Learning: A Theory-in-Action Perspective*, Reading MA: Addison-Wesley.
- Baden-Fuller, C. and Stopford, J (1992) *Rejuvenating the Mature Business* London: Routledge.
- Buckley, P. J. and Chapman, M. (1997) 'Theory and method in international business research', *International Business Review*, Vol. 5, No. 3, Pp. 243-255.
- Carpenter, M. A. (2002) 'The implications of strategy and social context for the relationship between top management team heterogeneity and firm performance', *Strategic Management Journal*, Vol. 23, No. 3, Pp. 275-284.
- Carpenter, M. A. (2002). 'The Implications of Strategy and Social Context for the Relationship between Top Management Team Heterogeneity and Firm Performance', *Strategic Management Journal*, Vol. 23, No. 2, Pp. 275-284.
- Carpenter, M. A. and Westphal, J. D. (2001) 'The Strategic Context of External Network Ties: Examining the Impact of Director Appointments on Board Involvement in Strategic Decision-making', *Academy of Management Journal*, Vol. 44, No. 4, Pp. 639-660.
- Carpenter, M. A., Pollock, T. G., and Leary, M. M. (2003) 'Testing a Model of Reasoned Risk-taking: Governance, the Experience of Principals and Agents, and Global Strategy in High-technology IPO Firms', *Strategic Management Journal*, Vol. 24, No. 6, Pp.803-820.
- Casson M. (1996) The comparative organisation of large and small firms, *Small Business Economics*, Vol. 8, Pp. 329-345.
- Clarke, T. and Bostock, R. (1994) 'International corporate governance' in T. Clarke and E. Monkhouse (Eds) *Rethinking the Company* London: Pitman.
- Clarkham, J. (1994) *Keeping Good Company: A study of corporate governance in five countries* Oxford: Oxford University Press.
- d'Iribane, P. (1997) 'The usefulness of an ethnographic approach to the international comparison of organizations', *International Studies of Management and Organisation*, Vol. 26, No. 4, Pp. 30-47.
- Daily C. M. & Dalton D. R. (2003), Governance through Ownership: Centuries of Practice, Decades of Research, *The Academy of Management Journal*, Vol. 46, No. 2, 151-158.
- Daily, C., Dalton, D., and Rajagopalan, N. (2003) 'Governance through ownership: centuries of practice, decades of research', *Academy of Management Journal*, Vol. 46, No. 1, Pp. 115-158.
- Daily, C., McDougall, P., Covin, J., and Dalton, D. (2002) 'Governance and Strategic Leadership in Entrepreneurial Firms', *Journal of Management*, Vol. 28, No. 3, Pp. 387-412.

- Dalton, D. R., Daily, C. M., Ellstrand, A. E., and Johnson, J. L. (1998) 'Meta-analytic Review of Board Composition, Leadership Structure, and Financial Performance', *Strategic Management Journal*, Vol. 19, No. 2, Pp. 269-290.
- Dalton, D. R., Daily, C. M., Johnson, J., and Ellstrand, A. (1999) 'Number of Directors and Financial Performance: A Meta-Analysis', *Academy of Management Journal*, Vol. 42, No. 6, Pp. 674-686.
- Dalton, D., Daily, C., Certo, S., and Roengpitya, R. (2003) 'Meta-analysis of Financial Performance and Equity: Fusion or Confusion?', *Academy of Management Journal*, Vol. 46, No. 1, Pp. 13-26.
- Deutsch, Y. (2005) 'The Impact of Board Composition on Firm's Critical Decisions: A Meta-analytic Review', *Journal of Management*, Vol. 31, No. 3, Pp. 424-444.
- Ericsson, K. and Simon, H. (1985) *Protocol Analysis* New York: Sage.
- Filatotchev, I. and Bishop, K. (2002) 'Board Composition, Share Ownership and Underpricing of UK IPO Firms', *Strategic Management Journal*, Vol. 23, No. 8. Pp. 941-955.
- Filatotchev, I. and Bishop, K. (2002) 'Board composition, share ownership and 'underpricing' of UK IPO firms', *Strategic Management Journal*, Vol. 23, No. 10, pp. 941-955.
- Filatotchev, I. and Wright, M. (Eds.) (2005) *Corporate Governance Life-Cycle*. London: Edward Elgar.
- Finkelstein, S. and Hambrick, D. C. (2001) *Strategic Leadership: Top Executives and their effects on Organizations*. St Paul, MN: West.
- Geletkanycz, M.A., Boyd, B.K. and Finkelstein, S. (2001) 'CEO compensation; executive networks; social capital; strategic leadership', *Strategic Management Journal*, Vol. 22, No. 9, Pp. 889-898.
- Geletkanysz, M. and Hambrick, D. (1997) 'The External Ties of Top Executives: Implications for Strategic Choice and Performance', *Administrative Science Quarterly*, Vol. 42, No. 5, Pp. 654-681.
- Gibson, C. B. (1999) 'Do they do what we believe they can? Group-efficacy beliefs and group performance across tasks and cultures', *Academy of Management Journal*, Vol. 42, No. 1, Pp. 138-152.
- Gordon G. G. (1991) 'Industry determinants of organisational culture', *Academy of Management Review*, Vol. 16, No. 3, Pp. 396-415.
- Granovetter, M. H. (1973) 'The strength of weak ties', *American Journal of Sociology*, Vol. 78, No. 6, Pp. 1360-1380.
- Grinyer, P. H. and Spender, J. C. (1979) *Turnaround – Managerial Recipes for Strategic Success* London: Associated Business Press.
- Hambrick, D. C. and Mason, P. A. (1984) 'Upper echelons: the organization as a reflection of its top managers', *Academy of Management Review* Vol. 9, No. 1, Pp. 196-206.
- Hambrick, D. C., Cho, T. S. and Chen, M. (1996) 'The influence of top management team heterogeneity on firms' competitive moves', *Administrative Science Quarterly*, Vol 41, No. 4, Pp.659-684
- Hayes, W.L. (1994) *Statistics* (Fifth edition) New York: Holt, Rinehart and Winston.
- Hickson, D. J. (1993) *Management in Western Europe* Berlin and New York: Walter de Gruyter.

- Hillman, A. J. and Dalziel, T. (2003) 'Boards of Directors and Firm Performance: Integrating Agency and Resource Dependence Perspectives', *Academy of Management Review*, Vol. 28, No. 3, Pp. 383-396.
- Hillman, A., Cannella Jr, A. A., and Paetzold, R. L. (2000) 'The Resource Dependence Role of Corporate Directors: Strategic Adaptation of Board Composition in Response to Environmental Change' *Journal of Management Studies*, Vol. 37, No. 2. Pp. 235-255.
- Hinkle, D. E., Wiersma, W., and Jurs, S. G. (1994) *Applied Statistics for the Behavioral Sciences* (Third edition) Boston: Houghton-Mifflin.
- Hirji, K. F., Tan, S .J. and Elashoff, R. M. (1991) 'A quasi-exact test for comparing two binomial proportions' *Statistical Medicine* Vol. 10: Pp. 1137-1153.
- Hofstede, G and Bond, M. H. (1988) 'Confucius and economic growth: new trends in culture's consequences' *Organizational Dynamics*, Vol. 16, No. 1, Pp. 4-21.
- Hofstede, G. (2001) *Culture's Consequences: Comparing Values. Behaviors, Institutions and Organizations across nations* (2<sup>nd</sup> Edition) Thousand Oaks, CA: Sage.
- Inkiles, A. and Levinson, D. J. (1969) 'National character: the study of modal personality and socio-cultural systems', in G. Lindzey and E. Aronson (Eds.) *The Handbook of Social Psychology* (2nd Edn) Chicago, ILL: Rand McNally.
- Ireland, R. D., Hitt, M. A. and Williams, J. C. (1992) 'Self-confidence and decisiveness: prerequisites for effective management in the 1990s', *Business Horizons*, Vol. 35, No. 1, Pp. 36-43.
- Jackson, G. and Aguilera, R. (2003) 'The Cross-National Diversity of Corporate Governance: Dimensions and Determinants', *Academy of Management Review* Vol. 28, No. 3, Pp.447-465.
- Janis, I. L. (1982) *Victims of Groupthink* (Second edition) Boston: Houghton Mifflin.
- Jensen, M. C. and Meckling, W. H. (1976) 'Theory of the firm: managerial behaviour, agency costs and ownership structure', *Journal of Financial Economics* No. 3, Pp. 305-360.
- Jensen, M. C. and Meckling, W. H. (1976) 'Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure', *Journal of Financial Economics*, Vol. 3, No. 2, Pp. 305-360.
- Johnson G. (1987) *Strategic Change and the Management Process* Oxford: Blackwell
- La Porta, R. Lopez-De-Silanes, F. and Shleifer, A. (1999) 'Corporate ownership around the world', *Journal of Finance*, Vol. 54, No. 3, Pp. 471-514.
- La Porta, R., Lopez-De-Silanes, F., Shleifer, A. and Vishny, R. (1998) 'Law and finance', *Journal of Political Economy*, Vol. 106. No. 9, Pp. 1113-1155
- La Porta, R., Lopez-De-Silanes, F., Shleifer, A. and Vishny, R. (1997) 'Legal determinants of external finance', *Journal of Finance*, Vol. 52, No. 10, Pp. 1131-1150.
- Lam, S. S. K., Chen, X.-P., and Scaubroeck, J. (2002) 'Participative decision making and employee performance in different cultures: the moderating effects of allocentricism/idiocentricism and efficiency', *Acedemy of Management Journal*, Vol. 45, No. 5, Pp. 905-915.
- Lammers, C. J. (1990) 'Sociology of organisations around the globe: similarities and differences between American, British, French, German and Dutch brands', *Organization Studies*, Vol. 11, No. 2, Pp.179-205.
- Laurent, A. (1983) 'The cultural diversity of western conceptions of management', *International Studies of Management and Organisation*, Vol. 13, No. 1, Pp. 75-96.

- Laurent, A. (1986) 'The cross-cultural puzzle of international human resource management', *Human Resource Management*, Vol. 25, No. 1, Pp. 91-102.
- Lynall, M. D., Goden, B. R., and Hillman, A. J. 2003. Board composition from adolescence to maturity: a multitheoretic view. *Academy of Management Review*, 28(3): 416-431
- McConaughy, D., Matthews, C., and Fialko, A. (2001) 'Founding family controlled firms: Performance, risk and value', *Journal of Small Business Management*, Vol. 39, No. 1, Pp. 31-49.
- McNulty, T. and Pettigrew, A. (1999) 'Strategists on the board', *Organization Science*, Vol. 20, No. 1, Pp. 47-74.
- Medcof, J. W. (2001) 'Resource-based strategy and managerial power in networks in internationally dispersed technology units' *Strategic Management Journal*, Vol. 22, No. 10, Pp. 999-1012.
- Moensted, M. (2003) *Strategic Networking in Small High-Tech Firms* Copenhagen: Samfundslitteratur.
- Parthiban D. & Rahul, K., (1996), Barriers to Effective Corporate Governance by Institutional Investors: Implication for Theory and Practice, *European Management Journal*, Vol. 14, No. 5, Pp. 457-466.
- Pearson, A. E. (1988) 'Tough-minded ways to get innovative', *Harvard Business Review*, Vol. 66, No. 3, Pp. 99-106.
- Pett, M. A. (1997) *Nonparametric Statistics for Health Care Research* Thousand Oaks, CA: Sage.
- Pettigrew, A. M. and Whipp, R. (1991) *Managing Change for Competitive Success* Oxford: Blackwell.
- Priem, R. L. (1990) 'Top management team group factors, consensus, and firm performance', *Strategic Management Journal*, Vol. 11, No. 6, Pp. 469-478.
- Roberts, J., McNulty, T., and Styles, P. (2005) 'Beyond Agency Conceptions of the Work of the Non-executive Directors: Creating Accountability in the Boardroom', *British Journal of Management*, No. 16, No. 1, Pp. 5-26.
- Schein, E. H. (1985) *Organizational Culture and Leadership* San Francisco: Jossey Bass.
- Schwartz, S. H. (1994) 'Beyond Individualism/Collectivism: New Dimensions of Values', in U. Kim, H.C. Triandis, C. Kagitçibasi, S.C. Choi and G. Goon (eds.) *Individualism and Collectivism: Theory, Method and Application*, Sage, Newbury Park, CA, pp: 85-119.
- Schwartz, S. H. (1999) 'A theory of cultural values and some implications for work', *Applied Psychology: An International Review*, Vol. 48, No. 1, Pp. 12-47.
- Senge, P. M. (1990) 'The leader's new work: building learning organisations', *Sloan Management Review* Vol. 32, No. 1, Pp. 7-23.
- Siegel, S. and Castellan, N. J. (1988) *Nonparametric Statistics for the Behavioral Sciences* (2nd ed.) New York: McGraw-Hill.
- Smith P. B. and Bond, M. H. (1998) *Social Psychology across Cultures* Harlow: Prentice Hall.
- Smith P. B., Bond, M. H. and Kağıtçibasi, Ç. (2006) *Understanding Social Psychology across Cultures* London: Sage.
- Sondegaard, M. (1994) 'Research note: Hofstede's consequences: A study of reviews, citations and replications', *Organisation Studies* Vol. 15, No. 3, Pp. 447-456.

- Starr, J. A. and Macmillan, I. C. (1990) 'Resource cooption via social contracting: Resource acquisition strategies for new ventures', *Strategic Management Journal* Vol. 11 (Special Issue), Pp. 79-92.
- Strauss, A. and Corbin, J. (1991) *Basics of Qualitative Research: Grounded Theory Procedures and Techniques* London: Sage.
- Thomsen, S. and Pedersen, T. (2000) 'Ownership structure and economic performance in the largest European companies', *Strategic Management Journal*, Vol. 21, No. 6, Pp. 689-705.
- Trompenaars, F. and Hampden-Turner, C. (1997) *Riding the waves of culture: Understanding cultural diversity in business* (2nd ed.) London: Nicholas Brearley.
- Vroom, V. and Yetton, P. (1973) *Leadership and Decision-making* Pittsburgh, PA: University of Pittsburgh Press.
- West, C. T. and Schwenck, C. R. (1996) 'Top management team strategic consensus, demographic homogeneity and firm performance: A report of resounding nonfindings', *Strategic Management Journal*, Vol 17, No. 7, Pp. 571-576.
- Zahra, S. A. and Pearce, J. A. (1989) 'Boards of Directors and Corporate Financial Performance: A Review and Integrative Model', *Journal of Management*, Vol. 15, No. 2, Pp. 291-334.
- Zimmerman, F. M. (1989) 'Managing a Successful Turnaround' *Long Range Planning*, Vol. 22, No. 3, Pp. 105-124.